



Office of Health Care Access Certificate of Need Application

Final Decision

Applicants: Connecticut Hospital Management Corporation
d/b/a Stonington Institute and Stonington Behavioral
Health, Inc.

Docket Number: 04-30249-CON

Project Title: Transfer of Ownership and Control through the
Purchase and Sale of Assets

Statutory Reference: Sections 19a-638 and 19a-639 of the Connecticut
General Statutes

Filing Date: April 7, 2004

Presiding Officer: Cristine A. Vogel, Commissioner

Decision Date: April 22, 2004

Default Date: July 6, 2004

Staff Assigned: Kim Martone

Project Description: Connecticut Hospital Management Corporation d/b/a Stonington Institute (“CHMC”) proposes to transfer ownership and control through the purchase and sale of its assets to Stonington Behavioral Health, Inc. (“SBH”). The total capital expenditure associated with the proposed transfer of ownership and control through the purchase and sale of assets is \$40,200,000.

Nature of Proceedings: On April 7, 2004, the Office of Health Care Access (“OHCA”) received the Certificate of Need (“CON”) application of CHMC and SBH (“Applicants”) seeking authorization for the transfer of ownership and control through the purchase and sale of CHMC’s assets to SBH, at a total capital expenditure of \$40,200,000. The Applicants are health care facilities or institutions as defined by Section 19a-630 of the Connecticut General Statutes (“C.G.S.”).

On February 23, 2004, the Applicants were informed that a notice to the public regarding OHCA's receipt of the Applicants' Letter of Intent ("LOI") to file its CON application would be published in *The Day Publishing* (New London) pursuant to Section 19a-638, C.G.S. as amended by Section 1 of Public Act 03-17.

The Applicant requested a waiver of public hearing pursuant to Section 19a-643-45 of OHCA's Regulations and claimed that the CON application was non-substantive as defined in Section 19a-643-95(3) of OHCA's Regulations. A notice to the public was published on April 14, 2004, in *The Day* (New London). OHCA received no comments from the public concerning the Applicant's LOI or CON application and therefore, on April 22, 2004, OHCA granted the Applicant's request for waiver of the public hearing.

OHCA's authority to review and approve, modify or deny the CON application is established by Sections 19a-638 and 19a-639, C.G.S. The provisions of these sections as well as the principles and guidelines set forth in Section 19a-637, C.G.S., were fully considered by OHCA in its review.

Findings of Fact

Clear Public Need

Proposal's Contribution to Accessibility of Health Care Delivery in the Region Impact of the Proposal on the Interests of Consumers of Health Care Services and Payers for Such Services Financial Feasibility of the Proposal and its Impact on the Applicants' Rates and Financial Condition

1. Connecticut Hospital Management Corporation d/b/a Stonington Institute ("CHMC") is a for-profit corporation licensed by the State of Connecticut Department of Public Health, the Department of Children and Families, and the Department of Education to operate the following ("Facilities" or "Business"):
 - A 63-bed Facility for the Care or Treatment of Substance Abusive or Dependent Persons ("Treatment Center") and A Mental Health Day Treatment Facility ("Day Treatment Program") located at 75 Swantown Hill Road in North Stonington, CT;
 - A 45 bed Child Care Facility to provide Residential Treatment Center ("RTC") Services located at 75 Swantown Hill Road in North Stonington, CT;
 - An outpatient Facility for the Care or Treatment of Substance Abusive or Dependent Persons ("Groton Treatment Center") and A Mental Health Day Treatment Facility ("Groton Day Treatment Program") located at 428 Long Hill Road in Groton, CT;
 - An outpatient Facility for the Care or Treatment of Substance Abusive or Dependent Persons located at 83 Boston Post Road in Waterford, CT ("Waterford Treatment Program");
 - An outpatient Facility for the Care or Treatment of Substance Abusive or Dependent Persons ("Long Hill Road Treatment Center") and A Mental Health

- Day Treatment Facility (“Long Hill Road Day Treatment Program”) located at 333 Long Hill Road, Groton, CT; and
- A 45-student private special education facility (“School”) for individuals ages 12-18 located at 83 Boston Post Road in Waterford, CT.
(April 7, 2004 CON Application, Attachment 4B and 7A)
2. Stonington Behavioral Health, Inc. (“SBH”) is a wholly owned subsidiary of Universal Health Services, Inc., a corporation formed under Delaware law in 1979. UHS has its principal executive offices in King of Prussia, PA. *(April 7, 2004 CON Application, Attachment 3)*
 3. Property Resources Management, LLC (“PRM”) is a Connecticut limited liability corporation, which is an affiliate of CHMC and is owned by CHMC’s stockholder. CHMC leases its facilities and certain other assets from PRM. *(April 7, 2004 CON Application, CHMC’s Notes to Financial Statements, page 10)*
 4. Michael J. Angelides (“MJA”) is the President and the Chief Executive Officer of CHMC. *(April 7, 2004 CON Application, Attachment 4A)*
 5. The proposal is a sale of all of the assets belonging to CHMC, PRM, and MJA used in the operation of the licensed Business CHMC conducts at various locations in Connecticut to SBH. *(April 7, 2004 CON Application, Attachment 3)*
 6. CHMC and SBH (“Applicants”) indicated that the assets to be purchased include all land and buildings owned by CHMC, PRM, or MJA, personal property, and all other business assets used in connection with the provision of the Services, which are identified in the Asset Purchase Agreement dated March 18, 2004. *(April 7, 2004 CON Application, Attachment 3)*
 7. The Applicants stated that the proposal would permit CHMC, through its acquisition by SBH, to access additional capital resources as well as a variety of management services that will permit improved efficiencies and expanded services within the region. *(April 7, 2004 CON Application, Attachment 3)*
 8. The proposed enhanced management services include central purchasing, information services, finance and control systems, facilities planning, recruitment services, personnel management, marketing and public relations. *(April 7, 2004 CON Application, Attachment 3)*
 9. The Applicants stated there would be no change in the Services currently offered by CHMC. *(February 13, 2004, Letter of Intent, Project Description)*
 10. The Applicants indicated that CHMC’s projected behavioral health service volumes for the next three years of operation would not be impacted by this proposal. *(April 7, 2004 CON Application, Financial Statements, Attachment 11B)*

11. The CON proposal's total capital expenditure of \$40,200,000 is the purchase price of the assets of CHMC. The source of funding for the purchase of assets is through debt financing. *(April 7, 2004 CON Application, page 5)*
12. CHMC is not projecting any incremental revenue or expenses from the sale of assets and change in ownership. *(April 7, 2004 CON Application, Attachment 11B)*
13. The Applicants anticipate the ownership change occurring by May 1, 2004. *(April 7, 2004 CON Application, Attachment 11B)*
14. CHMC's rates are sufficient to cover the proposed capital expenditure and operating costs. *(April 7, 2004 CON Application, Attachment 11B)*

Consideration of Other Section 19a-637, C.G.S. Principles and Guidelines

The following findings are made pursuant to other principles and guidelines set forth in Section 19a-637, C.G.S.:

15. There is no State Health Plan in existence at this time. *(April 7, 2004 CON Application, page 2)*
16. The Applicants have adduced evidence that this proposal is consistent with their long-range plans. *(April 7, 2004 CON Application, page 2)*
17. The Applicants have no current teaching and research responsibilities. *(April 7, 2004 CON Application, page 3)*
18. There are no distinguishing characteristics of the patient/physician mix of each of the Applicants. *(April 7, 2004 CON Application, page 3)*
19. The Applicants' proposal will result in no change in the technical, financial and managerial competence of each of the Applicants to provide efficient and adequate service to the public. *(April 7, 2004 CON Application, Attachment 4A)*
20. CHMC has improved productivity and contained costs through a computer purchase initiative. *(April 7, 2004 CON Application, Attachment 5)*
21. The Applicants' proposal will not impact CHMC's current utilization statistics or its ability to provide quality health care services in the North Stonington, Groton and Waterford areas. *(April 7, 2004 CON Application, Attachment 4C)*

Rationale

Connecticut Hospital Management Corporation d/b/a Stonington Institute (“CHMC”) proposes to transfer ownership and control of all of its assets or Business to Stonington Behavioral Health, Inc. (“SBH”), a Delaware corporation. The Business consists of inpatient and outpatient mental health and substance abuse facilities and services in North Stonington, Groton, and Waterford. CHMC and SBH (“Applicants”) are proposing the transfer of ownership and control of CHMC assets to SBH to permit CHMC, through its acquisition by SBH, to access additional capital resources as well as a variety of management services that will permit improved efficiencies and expanded services within the region. The proposed enhanced management services include central purchasing, information services, finance and control systems, facilities planning, recruitment services, personnel management, marketing and public relations. OHCA finds that since there will be no change in the accessibility or quality of the behavioral health services currently offered by CHMC, the Applicants’ proposal is acceptable to OHCA.

The CON proposal is financially feasible. The proposed total capital expenditure of \$40,200,000 is the purchase price of the assets of CHMC, which will be financed through debt financing, as confirmed in the bank commitment letter. The Applicants anticipate the purchase and sale of assets occurring by May 1, 2004. OHCA finds that the transfer of ownership and control of CHMC’s assets to SBH will provide CHMC with additional capital resources as well as improve efficiencies at CHMC through enhanced management services. The transfer of ownership and control of CHMC’s Business to SBH will not impact projected CHMC service volumes or incremental revenues and expenses. Therefore, the Applicants’ proposal is in the best interests of consumers and payers.

Based upon the foregoing Findings and Rationale, the Certificate of Need application of CHMC and SBH for the transfer of ownership and control of CHMC’s assets to SBH is hereby GRANTED.

Order

The transfer of ownership and control through the purchase and sale of CHMC's assets to SBH, at a total capital expenditure of \$40,200,000, is hereby authorized subject to the following conditions:

1. The authorization shall expire on April 22, 2005. Should the transfer of ownership and control of CHMC's assets to SBH not be completed by that date, the Applicants must seek further approval from OHCA to complete the project beyond that date.
2. Stonington Behavioral Health shall be the license holder and operator of the Business located in New London, Groton, and Waterford.
3. The Applicants shall not exceed the approved capital expenditure of \$40,200,000. In the event that the Applicants learn of potential cost increases or expects that the final project costs will exceed those approved, the Applicants shall file with OHCA a request for approval of the revised project budget. The source of funding for the purchase of assets is through debt financing.

All of the foregoing constitutes the final order of the Office of Health Care Access in this matter.

By Order of the
Office of Health Care Access

April 22, 2004

Signed by Cristine A. Vogel
Commissioner

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